

COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

KATHERINE J. MARTINIS, CPA Auditor-Controller E-mail: kmartini@placer.ca.gov

ANDREW C. SISK, CPA Assistant Auditor-Controller E-mail: <u>asisk@placer.ca.gov</u>

June 18, 2009

Thomas Miller, County Executive Officer County Executive Office, Placer County 175 Fulweiler Avenue Auburn, CA 95603

Re: County Wide Review of Purchasing Practices

The purpose of our review was (a) to determine whether requisitioned purchases made by the County meet the criteria specified in the purchasing guidelines and procedures established by County rules and regulations; (b) to obtain an understanding of the Sole Source Procurement policies and procedures through interviews, review of written policies and procedures, and review of sample documents; (c) to determine whether procedures for Public Projects were performed in accordance with the Public Contract Code, Part 3, Chapter 1; (d) to determine if the County complied with the proper procedures for bids, proposals and contract purchases and if necessary approvals were obtained as required; and (e) to determine if internal controls surrounding public bidding are effective in mitigating risks.

The Board of Supervisors has adopted the Purchasing Policy Manual (PPM) which is based on the County Code, Article 2.104 and on commonly accepted public purchasing practice as promoted by the National Institute for Governmental Purchasing and the National Purchasing Institute. The PPM governs the purchasing practices of the County. Additionally, the Procurement Division has created a Purchasing Handbook for Departments. We spoke with County departmental staff and interviewed staff at the Procurement Division. We also tested procurement and accounting transactions from the 2007/08 fiscal year, including purchase requisitions, contracts, direct vouchers (delegated purchasing) and vouchers payable.

The remainder of this report is separated into two sections: (A) A summary of departmental expenditure findings and recommendations and (B) overall summary and recommendation based on our evaluation of existing County Wide Purchasing Practices.

A. Summary of Departmental Expenditure Findings and Recommendations

1. Purchase in excess of \$50,000

We noted one instance in which a payment was made in excess of \$50,000, with no evidence the purchase received prior approval by the Board of Supervisors, as required by the Placer County Purchasing Policy Manual Section 2.1. Specifically, the Board of Supervisors approved the original contract and first year maintenance payment for the District Attorney's software program, however future payments (the next five years), all of which are over \$50,000 and specified in the contract were never requested/approved by the Board.

We recommend the District Attorney's Office obtain Board of Supervisors approval for the individual annual maintenance payments on the contract if they exceed \$50,000.

<u>Department Response:</u>

On April 26, 2005, the Board of Supervisors approved an agreement for the purchase of a District Attorney case management system (Damion). The Board authorized payment for the implementation. The District Attorney's Office did not know that it was to go before the Board for the annual maintenance payment.

The District Attorney's Office will obtain Board of Supervisors approval for the annual maintenance payment on the contract if we exceed \$50,000.

2. Restricted items

We noted two instances in which departments purchased restricted items under Procurement's Delegated Purchasing Policy Guidelines and Restrictions.

In the first instance the Community Development Resource Agency (CDRA) purchased items in error and brought them to the attention of Procurement. They received subsequent approval due to a temporary problem with the Corporate Express website. Procurement subsequently provided purchasing training to the CDRA staff.

In the second instance, the Library submitted an invoice for a laptop to the Auditor-Controller's Office for payment. It was rejected by Accounts Payable and when the Library brought it to Procurement, they too received subsequent approval. Procurement then provided some short but intense training to the Library employee and her supervisor who were involved in this policy violation.

We recommend all employees who are responsible for making purchases review the Purchasing Policy Manual and Purchasing Handbook for Departments. In addition, we recommend employees contact Procurement for assistance with specific purchases if needed.

<u>Department Responses:</u>

CDRA did make 'furniture' purchases that are clearly outside of Placer County policy guidelines. Subsequently we have held training sessions for staff that are involved in the purchasing process. We believe that procurement has worked with our vendor so the system restricts unauthorized purchases.

The Library purchased a Dell computer in May 2008 for use in the Placer Adult Literacy Program. This is a program funded by an annual grant from the State of California, of which all funds must be expended within the corresponding fiscal year.

In April 2008, the need was identified for a laptop computer that could be utilized when the program coordinator performs outreach. This was after the Placer County Procurement Department's cut off date for purchase requisitions. Because of the nature of the grant funding, the Library determined it appropriate to proceed with the purchase of the computer using a Sub PO method. The Library's I/T Department obtained a quote from the County authorized vendor, Dell. The hardware selected and purchased conformed to County specifications and standards.

All Library staff now understands that regardless of the funding source, time of year, or compliance with County specification, it is necessary for all computer purchases to be conducted under Placer County Purchasing guidelines. All staff have reviewed this document. The procedure will be followed in the future, with no exception.

3. Split purchases

We noted four instances by one department where it appears they circumvented Procurement's Delegated Purchasing Authority Guidelines by splitting an order into smaller purchases. In the first instance, Department of Public Works (DPW) purchased the same item from the same vendor on two consecutive days. The purchases' combined total was \$2,933.50. In the second instance, DPW purchased similar items (hardware) on the same day from the same vendor which were billed on five separate invoices. The purchases' combined total was \$4,347.20. In the third instance, DPW purchased the same item from the same vendor a couple of days apart which were billed on five separate invoices. The purchases' combined total was \$3,328.34. In the last instance, DPW (Tahoe Area Regional Transit) purchased the same item from the same vendor on the

same day but was billed on two separate invoices. The purchases' combined total was \$2,934.97. TART is in the process of obtaining a BPO for ongoing purchases of these electronic tickets. At the time of purchase, no BPO was in place.

All of these purchases are greater than the \$2,500 delegated purchases threshold.

We recommend all DPW employees who are responsible for making purchases review the Purchasing Policy Manual and Purchasing Handbook for Departments. In addition, we recommend employees contact Procurement for assistance with specific purchases if needed.

Department Response:

Road Department has several locations. Each location has a Foreman and each Foreman is aware of the BPOs and dollar amounts on each BPO. Each Foreman has the authority to procure material for their site. In the first instance, on November 27, 2007, Lincoln crew Foreman placed an order for winter patch to fill wet potholes from a non-BPO vendor, as the BPO vendor could not supply Durapatch (winter patch) for the Lincoln Facility. It was by coincidence that the Auburn crew Foreman placed an order on November 28, 2007 for winter patch for the Auburn location. Same issue applied in that the vendor holding the BPO could not supply Durapatch and the foreman had to use another vendor.

In the second instance, Road Department made these purchases for the Winter Storm 2008 OES event. These purchases were made by the various crews working the OES event. The BPO in place did not have listed the items required to be purchased. The Road Manager will work with the Purchasing Manager during events such as this when crews need immediate material that does not match the BPO to ensure that all auditing and accounting requirements are met.

In the third instance, these purchases were done by the Foresthill Foreman. Foreman believed that he was ordering off BPO as BPO lists purchases of 3/8 material. What the Foreman ordered was 3/8 Fine material which is not on the BPO, because the quantities needed each year is too small for any vendor to place on BPO. Foresthill Foreman will pay closer attention to the purchase and ensure the proper auditing and accounting requirements are used in purchasing 3/8 fine material in the future.

In the last instance, Transit needed an emergency purchase of electronic ticket material as the current BPOs do not list this particular material on them. Special ticket material is required for the new electronic fare boxes. Since this event, DPW Transit is currently actively working with Procurement on establishing a BPO with a selected vendor for this special ticket material.

B. Overall Summary and Recommendation

CEO signature authority

It was noted that the Purchasing Agent has signature authority up to \$49,999.99 which he has delegated to the Purchasing Manager. In his absence, the Senior Buyer, whose normal signature authority is \$24,999.99 has authority up to \$49,999.99. This appears to be the only area of delegation in an absence. Specifically, the Purchasing Policy Manual Section 2.5 allows the County Executive Officer to retain firms or individuals to provide expert advice or assistance but not greater than \$49,999.99. However, there is no policy that allows the CEO to delegate this authority in his absence.

We recommend the County include this delegation of authority in the next revision of the Purchasing Policy Manual.

CEO Response:

The County Executive Office is updating and consolidating a number of policies and practices for Countywide use. This office will work with the Department of Administrative Services Procurement Division to update the Purchasing Policy Manual to reflect delegated authority for purchases in the absence of the County Executive Officer.

The departments' responses to the recommendations identified in our review are described above. We did not audit the departments' responses and, accordingly, we express no opinion on them.

We appreciate the courtesy and assistance of staff from all departments throughout the course of our review.

Sincerely,

Nicole C. Howard, CPA Internal Audit Manager

cc: Katherine Martinis, Auditor-Controller
Holly Heinzen, Assistant County Executive Officer

Clark Moots, Director of Administrative Services

Jim Boggan, Purchasing Manager Placer County Audit Committee